

STATE OF MAINE

GUIDANCE PACKAGE FOR COMPONENT UNITS



*FOR AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006*



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REPORTING REQUIREMENTS

The Office of the State Controller will prepare a Comprehensive Annual Financial Report (CAFR) for fiscal year 2006 in accordance with 5 M.R.S.A. § 1547. This report will include the following entities as component units based on the Governmental Accounting Standards Board Statement #14:

Child Development Services System	Maine Municipal Bond Bank
Finance Authority of Maine	Maine Port Authority
Governor Baxter School for the Deaf	Maine Rural Development Authority
Loring Development Authority	Maine School of Science & Mathematics
Maine Community College System	Maine State Housing Authority
Maine Educational Loan Authority	Maine State Retirement System
Maine Governmental Facilities Authority	Maine Technology Institute
Maine Health and Higher Educational Facilities Authority	Northern New England Passenger Rail Authority
Maine Maritime Academy	University of Maine System

The State of Maine implemented GASB Statement 34 for the fiscal year ended June 30, 2002. Because they are included with the primary government as part of the State of Maine reporting entity, component units also **must comply** with GASB Statements 34 and 35 (for college and university funds). We are requesting that you send your GASB 34 compliant audited financial statements and notes to us by **October 15, 2006**, in accordance with 5 M.R.S.A. § 1547. In the event that the audited financial report has not been formally presented to the entity's Board of Directors, we will accept draft financial statements and notes as an interim measure to facilitate incorporating that information into our CAFR. Additionally, we would appreciate those component units with a calendar year end sending the audited financial statements to us as soon as they are available.

Draft Financial Statements Transmittal Letter

Because some Component Units' financial reports will not have been approved by their Board of Trustees by the October 15th deadline, we request that you submit a copy of the draft financials to us. The draft must be represented to the Office of the State Controller as ready for acceptance by the Board of Trustees. To facilitate this, we are requesting that you sign a Draft Financial Statements Transmittal Letter. A copy of this letter is attached.

GASB 34 Statement of Activities

The State must present a Statement of Activities for component units, in accordance with GASB 34. We therefore require your audited financial statements to include revenue and expense information in this format. This is necessary even if your financial statements are in compliance with GASB 34 without it. It can be presented as part of the financial statements, or as a supplemental schedule, but **must** be included by your auditors as part of their opinion.

GASB 34 requires segregation of revenue into the following categories: *Charges for Services*, *Operating Grants/Contributions*, *Capital Grants/Contributions*, and *General Revenues*. General revenues should be further classified as *Unrestricted interest and investment earnings*, *Non-program specific grants, contributions and appropriations*, *Gain/loss on assets held for sale*, *Extraordinary items*, or *Miscellaneous income*. Please see attached Excel file for suggested presentation.



NOTES TO THE FINANCIAL STATEMENTS

To simplify reporting, we are including an Excel file containing forms to be completed for the disclosure information. Please use these standardized forms to submit the information requested.

The State must include supporting schedules as part of the component unit presentation. Consequently, we are requesting additional detail for the footnote disclosures. We may also require assistance to reconcile activity between the State and the component unit. Timely submission of these schedules is critical since a series of material adjustments to the State's financial statements and note disclosures will be necessary. Please include the following schedules along with your audited financial statements and note disclosures.

Restatement of Fund Balances/Net Assets

If June 30, 2005 fund balance/net assets have been restated (or December 31, 2004 for calendar year entities), please include a detailed schedule reconciling to the June 30, 2005 (or December 31, 2004) fund balance/net assets as previously reported.

Deposits & Investments

The State Of Maine implemented GASB 40 "Deposit and Investment Risk Disclosures" for the fiscal year ended June 30, 2005. This statement updates GASB 3 custodial credit risk disclosure requirements, and establishes additional requirements addressing concentration of credit risk, interest rate risk, and foreign currency risk.

For Blended and Fiduciary component units only (MGFA, MHHEFA, and MSRS):

We will require additional information pertaining to debt securities. They will be categorized as follows for inclusion in the State's disclosure of interest rate risk and credit risk:

- U.S. Treasury obligations (full faith & credit)
- U.S. Instrumentalities (FNMA, FHLB, etc) (non-full faith & credit)
- Repurchase agreements
- Commercial paper
- Corporate bonds & notes
- Investment contracts
- Money market funds
- Bond mutual funds

You may use additional types for material investment balances.

To disclose Interest Rate Risk for debt investments, the State will be using the "Segmented Time Distribution" method. We will use the investment types listed above, and will be reporting based on the following time periods: less than 1 year, 1–2 years, 3–5 years, 6–10 years, and greater than 10 years. Please include callable debt obligations at the more likely of the call date or the maturity date, based on the opinion of your investment advisor. If you or your auditor feel that a different method would more appropriately disclose your interest rate risk, please contact Brenda Palmer in the Office of the State Controller.

In order to correctly report credit risk, please provide the fair value of investments for each investment type and credit rating, so that we may perform the appropriate calculations for the consolidated disclosure.

If your agency participates in the Treasurer's Cash Pool, the State will categorize an allocated share of the Pool for the component unit portion.

Amounts Receivable



If the Statement of Net Assets presents amounts receivable net of allowances for uncollectible, please provide a detailed schedule that disaggregates each balance. The schedule should report the gross receivables balances and the gross allowances for uncollectible accounts, separately for each of the following categories: *Due From Other Governments*, *Due From Primary Government*, *Loans*, *Notes*, *Other* and any other categories you use to report material receivable balances.

Capital Assets

If the Statement of Net Assets presents capital assets net of accumulated depreciation, please provide a detailed schedule that disaggregates each balance. The schedule should report the gross capital asset balances and the gross accumulated depreciation, separately for each of the following categories: *Land*, *Buildings*, *Equipment*, *Improvements other than Buildings*, *Construction in Progress*, *Infrastructure* and any other categories you use to report material capital asset balances. Additionally, the schedule should report beginning of the year balances, additions, retirements and end of the year balances for each category.

Bonds and Notes Outstanding

Please provide a schedule of bonds and notes outstanding net of unamortized discount or premium. Include detail of interest rates, amounts, and maturity dates as well as beginning of the year balances, additions, reductions, end of the year balances, and amounts due within one year.

Maturities of General Long Term Obligations

Please provide a schedule of principal and interest requirements to maturity, presented separately for each of the next five years and in five year increments thereafter. If obligations include variable rates, please include the conditions under which interest rates change.

Capital and Operating Lease Schedules

If you have not presented capital and operating lease schedules in your notes, please furnish them to us. The schedule must list the present value of future minimum lease payments for capital and operating lease (separately) for each of the next five years and in five year increments thereafter. The aggregate amount representing interest over those years must also be shown as a separate amount for each of the lease types.

Interagency Transactions

The financial relationship between the reporting entity (the State) and the component units is the primary focus of GASB Statement 14. The total dollar amount and volume of interagency transactions has made this one of the most difficult areas for us to report accurately and completely. The State must reconcile the amount reported as *Due to/from Component Units* with the amount you report as *Due to/from Primary Government*. Please provide a detailed list for any amounts due to/from Primary Government, including agency, program, and grant number.

If you combine amounts due to/from the Federal Government or State with any other receivable amounts on your financial statements, please provide a schedule that disaggregates these amounts.

Please also provide a detailed schedule of payments received from the State and the intended purpose of such payments if not evident from the face of the financial statements or in the note disclosures.

Moral Obligation Debt

Entities with capital reserve provisions should provide a schedule showing the amount of bonds outstanding, the required debt reserve, and the moral obligation debt limit as of the end of the fiscal year.

HOW TO REPORT



Please submit a copy of your audited financial statements and all required supporting schedules by **October 15, 2006** to:

Brenda Palmer, CPA
Office of the State Controller
Financial Reporting and Analysis
14 State House Station
Augusta, Maine 04333-0014

Please send a duplicate copy to:

State Department of Audit
66 State House Station
Augusta, Maine 04333-0066

We would appreciate electronic submission if possible. Please identify primary contacts for follow-up questions from the Office of the State Controller and the Department of Audit, including: name, email address, telephone and fax numbers.

Brenda Palmer, the Bureau's liaison with your agency, will be available to help you interpret the closing package instructions and to assist you in developing methodologies for compiling information in order to meet the October 15 deadline.

RELEVANT ISSUES

The State of Maine implemented GASB 40 "Deposit and Investment Risk Disclosures" for the fiscal year ending June 30, 2005. Please see "Deposits & Investments" on page 3 for details that you should share with your auditors. If you or your auditor feel that a different method would be more appropriate, please contact Brenda Palmer.

In accordance with GASB Statement 14, paragraph 65, you must disclose in the notes to your financial statements that you are a component unit of the State and describe your relationship with the State.

Entities that receive federal funding should be audited in accordance with generally accepted governmental auditing standards (yellow book). The audit opinion should indicate that you were "audited in accordance with *Governmental Auditing Standards*." Additionally, your entity should have an unqualified audit opinion.

If you have any questions related to the guidance package or any other issue related to the implementation of GASB Statement 14, please contact **Brenda Palmer** by phone at (207) 626-8437 or by email at brenda.palmer@maine.gov.

IF YOU SUBSEQUENTLY CHANGE ANY INFORMATION THAT HAS BEEN PROVIDED TO OUR AUDITORS IN RESPONSE TO A REQUEST FROM THEM, PLEASE FURNISH DUPLICATE COPIES OF THOSE CHANGES TO US.

Thank you very much for your careful attention in completing this reporting package. We sincerely appreciate your time and assistance.